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SUBJECT: KAZAKHSTAN: RUSSIAN HAND IN KAZATOMPROM DRAMA?

REF: (A) ASTANA 0943

(B) ASTANA 1914

(C) ASTANA 0209

Classified By: Ambassador Richard E. Hoagland: 1.4 (b), (d)

¶1. (C) SUMMARY: The case against Mukhtar Dzhakishev, former head of the state-owned nuclear company Kazatomprom (KAP), finally is heading to court, as rumors intensify about the reasons behind his arrest. In videos posted on YouTube on November 4, Dzhakishev asserts that his arrest is linked to an alleged Russian strategy to limit Kazakhstan's independence in production of nuclear-fuel products. According to some independent Kazakhstani and Russian analysts, the controversial videos might have contributed to the December 8 removal of the Chairman of the Committee for National Security (KNB). KAP's new head, Vladimir Shkolnik, announced ambitious plans to proceed with the transformation of KAP into a producer of full fuel-cycle products. However, German and Canadian interlocutors note the loss of some KAP autonomy since Dzhakishev's removal. They do not dismiss allegations that Russia played a role in this multi-faceted drama. END SUMMARY.

DZHAKISHEV CASE HEADS TO COURT

¶2. (SBU) The Procurator General's Office (PGO) announced on December 10 that it is proceeding with the case against Mukhtar Dzhakishev, former head of the state-owned nuclear company Kazatomprom (KAP), who was arrested on May 22 (ref A). The PGO announced its intention to hold open hearings, despite the confidential nature of the allegations. The charge of embezzlement, which is still under investigation, alleges that Dzhakishev illegally sold more than 60% of the state's uranium assets to private offshore companies. The corruption charge contends that Dzhakishev illegally established a KAP office in Vienna and used it to pay salaries to Kazakhstani diplomats posted in Vienna and their relatives. Purportedly, Rakhat Aliyev, the President's former son-in-law and Kazakhstan's erstwhile ambassador to Vienna, requested such action. The PGO formally filed criminal charges on the second charge with the Astana City Court.

¶3. (C) Dzhakishev was widely perceived as a loyal, apolitical civil servant and an effective manager of KAP, and his arrest became prime fodder for rumors and conspiracy theories. Daniyar Kanafin, a lawyer

hired by Dzhakishev's family, has argued that Dzhakishev could not have sold sensitive state assets without the knowledge and approval of the highest echelons of Kazakhstan's political leadership, including President Nazarbayev. Some have alleged that Dzhakishev's childhood ties to Rakhat Aliyev and his friendship with the former head of BTA bank, Mukhtar Ablyazov, finally caught up with him. Others, like Kanafin, believe Dzhakishev's removal is linked to an alleged Russian strategy to limit Kazakhstan's independence in the nuclear-energy industry.

THE RUSSIA ANGLE

14. (C) The theory alleging Russian attempts to influence Kazakhstan's nuclear ambitions and Kazatomprom's business strategy in the nuclear industry received a significant boost with the appearance of YouTube videos of what appears to be Dzhakishev's interrogation by an unseen interlocutor, presumably a KNB officer. In the videos, which first appeared on November 4, Dzhakishev details his strategy to turn KAP into a major global uranium player. Dzhakishev sought to transform KAP into a link between major uranium producers -- the United States, Russia, France, China, and Japan -- and to use these connections to increase Kazakhstan's technological expertise. In the video, he describes in great detail KAP's agreement with Japan's Toshiba for the production of uranium fuel pellets; the construction of a storage facility for these pellets in Japan; the construction of a uranium-enrichment plant in Angarsk, Russia; and the establishment of a KAP-Toshiba-Westinghouse training center in Kazakhstan to train new specialists. This project, according to Dzhakishev, would have given Kazakhstan entry into the nuclear fuel market.

15. (C) Dzhakishev claims that he "received signals" in late 2008

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that Russia's RosAtom (Russia's state nuclear corporation) began separate negotiations to bypass KAP, and it approached the Japanese with a proposal to build a storage facility for Russian-made pellets in Japan. Russia also proposed to buy shares of Uranium One, a Canadian-based uranium-producing company currently participating in two joint ventures with KAP. Dzhakishev asserts that he tried to prevent Russia from gaining a controlling stake in the company by convincing Toshiba and a Chinese company to buy a 20% stake in Uranium One. However, his arrest stalled those plans. Dzhakishev believes Russia encouraged his arrest, because it wished to remove him from the business and leave Kazakhstan as a "banana republic."

THE KNB ANGLE

16. (C) Adding fuel to the conspiracy-theory fire is the connection to Amangeldy Shabdarbayev, the Chairman of the KNB who was unexpectedly relieved of his duties on December 8. In early November, the KNB announced its investigation into the authenticity of the recordings and how they made their way to the Internet. Dzhakishev's wife Dzhamilya Dzhakisheva caused a stir on December 2 with allegations that Shabdarbayev himself gave her the videos in order to pass them to President Nazarbayev, because he ostensibly could not. Dzhakisheva said she passed several copies to people close to the President, but claimed that she did not know how the videos ended up on the Internet. Shabdarbayev's quick removal after Dzhakisheva's explosive announcement led some independent Kazakhstani and Russian political scientists to call it the "final straw" in a long string of botched KNB cases -- Dzhakishev, human-rights advocate Yevgeniy Zhovtis (ref B), and "Alma-Ata Info" editor-in-chief Ramazan Yevsergepov, not to mention Rakhat Aliyev in Vienna -- that pushed Nazarbayev to remove him. In one of his first public statements, Shabdarbayev's replacement, Adil Shayakhmetov, notably vowed to bring Dzhakishev to trial immediately.

SHKOLNIK'S BIG PLANS FOR KAP

17. (C) Despite Dzhakishev's allegations, KAP's new President, Vladimir Shkolnik, seems to have ambitious plans to move beyond the export of raw materials. According to the press, Shkolnik told President Nazarbayev on December 7 that KAP's operating profits will increase 200% from last year, reaching 49 billion tenge (approximately \$32 million). The company plans to develop solar and wind-power energy and manufacture heat pumps. In the first quarter

of 2010, according to Shkolnik, KAP will also establish joint ventures with Japan's Toshiba and Sumitomo.

THE GERMAN TAKE -- RUSSIA KEEN TO LIMIT KAP

18. (C) German DCM Wolfgang Brett (please protect) asserted to the Energy Officer on December 10 that two powerful actors in Russia actively shape and influence the development of Kazakhstan's nuclear energy sector: RosAtom and Glavnoye Razvedyvatelnoe Upravleniye (GRU, Russian military intelligence). A commercial organization, RosAtom primarily is interested in the raw uranium ore Kazakhstan produces. Brett asserted that lacking uranium fuel for its nuclear power plants due to decreasing imports, it has been feeling "squeezed" lately. (NOTE: Australia cancelled uranium shipments to Russia following the war with Georgia in August 2008. END NOTE.) Brett said Nazarbayev has tried since independence to diminish the influence of the GRU -- the Foreign Military Intelligence directorate of the Russian armed services -- and dismantle its structures in Kazakhstan. However, he has not fully succeeded. "They still have people and structures in place from the Soviet days," Brett said. In an effort to reclaim Russia's status as a world power, Brett claims that the GRU wants to "renuclearize" Russia. He alleged open, public disagreements within the Russian government regarding the GRU's role and involvement in Russian foreign policy, particularly with respect to nuclear issues.

19. (C) According to Brett, regardless of which power center is driving Russia, Russia has declared its policy to erode KAP's contacts and contracts with Western and Japanese companies. Brett conceded that KAP announced ambitious plans to become a

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vertically-integrated company with expertise and products in the entire nuclear fuel cycle, but he dismissed this as "just rhetoric." "Nothing is moving forward," he said. "None of these ambitious plans is being carried out," including projects to build nuclear power plants in China. Brett believes Russian influence largely has created this impasse. Russia does not want Kazakhstan to develop independent partnerships with other countries or consumers, including those in Japan and China, he claimed. Even at Angarsk, where KAP has a 50-50 joint venture with Russia, Russia fully controls the technology.

110. (C) Brett alleged Kazatomprom's President Vladimir Shkolnik has personal and professional ties to RosAtom (his son-in-law is a senior executive), and Shkolnik has strong links to Russia in general. Brett said the removal of KAP Head Shabdarbayev is "at least 50%" due to the Dzhakishev case and the controversy surrounding his arrest and detention. He suggested that this change, and other indications of "conflicts and rifts inside the service," which he called the real power center in Kazakhstan, might be the early signs of a struggle for succession. "You know," he said, "2012 is not that far off..." [COMMENT: We would note that many are always eager to predict almost every single headline event portends "the beginning of the succession struggle." END COMMENT.]

THE CANADIAN TAKE -- KAP MOVING SLOWER

111. (C) Canadian Commercial Officer David Mallette (please protect) told Energy Officer on December 8 that he and senior executives from Canadian uranium company Cameco (which operates the Inkai joint venture with KAP) met with Shkolnik in October. According to Mallette, Shkolnik was "very positive" about KAP's progress with the development of full fuel-cycle products. Mallette did not receive the impression that Shkolnik wanted KAP simply to mine and export uranium ore. He noted, however, that Canadian mining companies have complained since Dzhakishev's arrest about the increasing difficulty of obtaining decisions from KAP. Managers appear more cautious, and Samryk-Kazyna (the state holding company) has exercised greater control over daily operations (ref C). All in all, Mallette said, KAP now is operating with much less autonomy and freedom.

112. (C) COMMENT: The case against Dzhakishev and the future of KAP can be analyzed from multiple angles. KAP's diminished dynamism since Dzhakishev's removal probably is linked to internal factors as much as to external ones. The bulk of the company's senior

management was arrested six months ago. Samruk-Kazyna's creation of a new entity to oversee and approve KAP activities certainly impacted the company's ability to take risks, make decisions, and show initiative. Still, Russia's influence over Kazakhstan's behavior in this area, as in many others, cannot be denied. KAP's near-term development strategies will play an important role in analyzing the degree of Russian influence over Kazakhstan, including in the nuclear energy industry. END COMMENT.

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